

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6350

BILL NUMBER: HB 1070

DATE PREPARED: Dec 2, 2000

BILL AMENDED:

SUBJECT: Tax Exemption for Scholarship Income.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows an individual taxpayer, in calculating the individual's Indiana Adjusted Gross Income (AGI), to subtract the part of the individual's federal gross income that is received as a scholarship and designated to pay for room and board at a qualified educational organization located in Indiana. (Current federal law excludes scholarship money used to pay for tuition, books, and fees from federal gross income and, therefore, from federal AGI and Indiana AGI.)

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: This bill provides an income tax exemption for taxpayers who have received scholarship money which covers room and board expenses at an Indiana educational organization. Currently this part of scholarship funds are included as income in determining a taxpayer's federal AGI. Only scholarship money used to pay for tuition, books, and fees are excluded from federal AGI.

This exemption will reduce individual income tax revenue by a minimal amount. According to the Indiana Commission for Higher Education, average room and board expenses are approximately \$4,500. For each Indiana resident student attending an Indiana educational institution and receiving scholarship funds covering all or part of room and board expenses, the reduction in individual income tax would be \$153 (\$4,500 multiplied by 3.4%). The value of each exemption is ultimately dependent on the amount of the scholarship that is designated for room and board expenses.

The Commission does not have information on the number of Indiana students who have received scholarships at Indiana universities which cover room and board expenses. However, if 500 Indiana resident

students receive an average of \$4,500 in scholarship funds designated for room and board expenses, there would be an annual state revenue loss of \$76,500 in Individual AGI Tax revenue (\$153 multiplied by 500 students). If there were 1,000 such students, there would be an annual loss of \$153,000. Any revenue loss which might result from this exemption may be mitigated if some college students are not currently filing federal or state tax returns.

Individual Adjusted Gross Income Tax revenue is deposited in the General Fund. As this exemption is effective beginning January 1, 2002, any related fiscal impact would first occur in FY 2003.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience a minimal reduction in their revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Indiana Commission for Higher Education.